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Inclusive Global Value Chains in APEC

George Manzano and Kristine Joy Martin

Introduction

Inclusiveness is a big word in the development community. Given the increasing ubiquity of global value chains (GVCs), policy attention has turned towards making these more 'inclusive.' APEC, for one, is promoting inclusiveness of GVCs through international cooperation.

APEC is interested in GVC because it is perceived to be a game changer, i.e. a new paradigm that will increasingly define the patterns of international trade. Indeed, GVC has shaped the current global business environment in more ways than one. It has shifted the focus of the unit of trade from trade in goods to trade in tasks. Secondly, GVC encourages firms and countries to specialize in specific tasks and business functions based on their comparative advantages in order to ratchet up efficiency in production. GVCs provide potential mechanisms for all countries - whether these countries are large or small, developed or developing - to improve their income, employment, and productivity.

The emergence of GVCs thus raises many important trade policy questions, which can be discussed and for which a consensus for collective policy action can be drawn out in APEC.

Why does APEC have to raise inclusiveness in GVCs as a policy objective?

APEC raises the issue of inclusiveness for a number of reasons. Firstly, inclusiveness is at the very heart of development, i.e. what development is for, if not for people. Secondly, because participation in GVCs does not automatically lead to inclusive outcomes, there is a groundswell for a policy stance. In addition, as GVCs, by nature, reaches beyond borders, there are avenues for cooperation. APEC is thus, an appropriate forum to discuss and initiate policy responses, either at the collective level or at the level of individual APEC members, to promote inclusiveness in GVCs.

Inclusiveness at the extensive margin

Inclusiveness can be understood in various ways. One way is to consider inclusiveness across countries, i.e. getting more countries to participate. Different countries, of course, have different initial capacities to participate in GVCs. Such differences may be due to different factors that are fixed, such as, country's geographic location and resource endowment. Conversely, the differences can also be due to public policy, such as, a country's human capital, physical infrastructure, and overall investment climate. Thus, to facilitate the entrance of developing countries into the GVC, proper trade and investment policies that aim to liberalize exchange of goods and services worldwide should be encouraged and implemented. We call attempts to broaden inclusiveness across countries as the extensive margin.

Because of the nature of GVCs, where parts and components necessarily cross borders multiple times, countries with low trade barriers have better chances of participating. It also has been observed that GVCs tend to propagate in industries or product groups that have been subject to global trade liberalization. The passage of the 1997 Information Technology Agreement (ITA), which calls for the liberalization of IT products on an MFN basis by many countries, has been credited with the blossoming of GVCs in the electronics sector. To the extent that sectoral liberalization such as the ITA has promoted the participation of many countries - developed and developing alike - in the electronic GVC, it can be said that such initiatives foster inclusiveness across countries.

Thus, inclusiveness at the international level could be fostered if APEC could take the lead in promoting more sectoral liberalization on an MFN basis. APEC has a role because the sheer size and economic weight of its members is likely to give it the critical mass which is needed to push for sectoral liberalization. In addition, APEC is a forum for cooperation, which makes it an appropriate venue to gather consensus and support for sectoral liberalization in different sectors.

It is, however, not easy for APEC to negotiate for more sectoral liberalization because of the 'free rider' problem. Free riding entails that the countries which are not signatories to a sectoral liberalization agreement will also enjoy additional market access even without having to offer tariff concessions of their own. To lessen the possibility of free riding on the trade liberalization efforts by APEC, the challenge is to identify those areas in which the benefits of trade liberalization would redound mostly on APEC members rather than on non-members. These product groupings would be the promising candidates for sectoral trade liberalization. Wonnacott suggested a trade liberalization scheme on a selective product-by-product basis wherein countries choose the commodities for early liberalization based on a pre-defined criteria[1].

Inclusiveness at the intensive margin

Inclusiveness in GVCs could also be enhanced among the elements of the value chain within a country. Inasmuch as there are lead countries at the international level, there are also lead firms that coordinate production across a series of producers, each with different tasks, along a domestic supply chain. The lead firms, which could be producers or traders, thus act as the nexus between the international and the domestic supply chain. By and large, policies aimed at promoting inclusiveness within countries deal with getting more small and medium establishment (MSMEs) and fostering more linkages especially between foreign firms with local firms. We call policy actions directed to promote inclusiveness within the country as the intensive margin.

Making GVCs more inclusive can be achieved through many means. In this article we focus on (1) intensifying existing participation of Micro Small and Medium Enterprises (MSMEs) and (2) developing linkages of lead firms with local firms.

MSMEs:

Because GVCs are export-oriented, the firm-actors are operating under a very competitive environment. They are agile enough to modify products to suit the changing tastes and to adopt technology and production practices to remain cost effective. For these reasons, MSMEs that join GVCs are likely to

[1] Wonnacott, P. (1994) "Merchandise trade in the APEC region: Is there scope for liberalisation on an MFN basis?" The World Economy, Special Issue on Global Trade Policy: 33-51

enjoy positive spillovers of production technology as well as best managerial practices. However, the literature is replete with accounts of the many barriers that MSMEs face as they attempt to join, deepen and widen their GVC participation. These barriers are usually related to trade costs which could have structural or policy induced origins.

Thus, government plays a big role in lessening trade costs for MSMEs. For example, it can provide financial aid to help companies access credit for more efficient operations. More importantly, it can also facilitate MSMEs compliance to international standards, especially since MSMEs find it difficult to adjust to global standards and regulations at public, private, and civil society levels. Note that the GVCs, standards and certifications are at the heart of a firm's ability to participate and compete.

Linkages

The linkages of MSMEs and other local firms - especially those outside the special export processing zones (SEZs) - with lead firms or large multinational enterprises (MNEs) can also promote GVC inclusiveness. SEZs do not necessarily help in creating spill-over if the participating firms engage in processing activities with very little interaction with the local supplier firms. Thus, enclaves with little connection with the local firms are created.

An opportunity to make GVCs more inclusive is through forging partnerships among lead firms and local firms outside SEZs. Local firms can be suppliers of manufactures while the lead firms can be the buyers. This would increase the smaller partner's market and capabilities which can eventually hook them to the GVCs[2].

Policy should be directed at strengthening the linkages between the lead

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[2] Ibid.

and the supplier firms in the GVC model that have the weakest link. APEC, being a body that supports economic and technical cooperation can consider initiating capacity-building programs or advocacy where linkages can be deepened in pursuit of inclusiveness, in the following areas:

On standards and international certification:

Participation of firms in a GVC is conditional on their ability to meet the product or process standards of the lead firms. APEC can spearhead initiatives such as designing capacity building initiatives in certification compliance so as to facilitate the ability of small local firms to participate meaningfully in the production chain.

Entrepreneurship:

In certain industries, supplier firms may have started as informal subcontract suppliers. However, transitioning towards formal status could be problematic. Given this difficulty, it is recommended that policy attention be directed towards facilitating the transition of informal establishments to the formal sector by reducing red tape and enforcing of property rights[3]. In addition, company programs where managers in lead firms could be trained and 'spun off' to head supplier firms could be explored.

Trade facilitation:

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[3] Organization for Economic Cooperation and Development (OECD), World Trade Organization (WTO) and UNCTAD. "Implications of Global Value Chains for Trade, Investment, Development and Jobs." Prepared for the G-20 Leaders Summit Saint Petersburg (Russian Federation), August 6, 2013

Trade costs act as tax on supplier firms or as a fixed cost to internationalization. Trade costs need not necessarily be monetary in nature (tariff, taxes, etc). Delays can be particularly debilitating to the tight process flows of GVCs, thus any policy that improves export-import procedures at the border could encourage local firm participation. Programs to cluster service suppliers can create economies of agglomeration, lower transaction costs, and diminish the enclave behavior of lead firms.

Final Remarks

The advent of the GVCs, on the crest of network economics, is an important development to warrant keen policy attention. APEC, for one, has taken an interest in GVCs, because fostering this mode of integration raises many policy issues that can be discussed in the context of economic cooperation. Missing out on the policy questions surrounding GVCs would make APEC less relevant. Furthermore, APEC desires to imbue regional integration with an inclusive character for developmental purposes.

We suggest two broad areas to promote inclusiveness in APEC. The first deals with increasing the potential for GVCs. The proliferation of GVCs could only increase the possibilities for developing countries to participate. APEC, as a collectivity, could engage in initiating sectoral liberalization. The second avenue addresses fostering linkages between lead firms, which are usually foreign, with local suppliers (small businesses or otherwise) within the country. The idea is to prevent enclaves of foreign led GVCs. Though there is a host of complementary policies that could improve linkages, we highlight those that will help local supplier firms acquire the necessary standards, deepen entrepreneurship and benefit from trade facilitation measures.

Strengthening the APEC-G20-OECD Relationship

Chen-Sheng Ho

Background

In 2015, Turkey serves as the Chair of the G20. Next year, Mainland China will become the Chair of the G20. Therefore, it is important to know more about the priorities of the G20. At the same time, APEC has had a productive year and has also worked on several priorities. As a matter of fact, APEC is seeking to work closely with the G20 and has cooperated with the OECD. From the perspective of cooperation, the focus on issues that are of importance to APEC, G20 and OECD is necessary. Thus Chinese Taipei's contributions in APEC can serve as the most important way to link Chinese Taipei with the international community, as APEC continues to strengthen its cooperation with the G20 and OECD.

2015 G20 Priorities

As the Chair of G20 this year, Turkey has chosen the theme of: "Collective Action for Inclusive and Robust Growth." In addition, Turkey is focusing on the following three pillars: 1) Strengthening the Global Recovery and Lifting the Potential; 2) Enhancing Resilience; and 3) Buttressing Sustainability (G20 2015).

In Session 2, the main topic of discussion was "Connectivity through Services." The main point was that efficiency in services had increasingly been associated with higher labor productivity and competitiveness in manufacturing. Moreover, services had been recognized as the facilitator of global value chains and logistics chain in particular. The main challenge was that the services sector continued to be highly restrictive in many parts of the world as well as the APEC region. Furthermore, the difficulty of changing domestic regulations had led to the reluctance of economies to liberalize their services sector. It is suggested that economies should promote knowledge sharing and the development of a knowledge community for promoting regulatory reforms (PIDS 2015).

2015 APEC Priorities

The host of APEC in 2015 is the Philippines. The main theme is: "Building Inclusive Economies, Building a Better World." The priorities are: 1) Enhancing the Regional Economic Integration Agenda; 2) Fostering SMEs' Participation in Regional and Global Markets; 3) Investing in Human Capital Development; and 4) Building Sustainable and Resilient Communities (APEC 2014).

Seeking Closer APEC-G20-OECD Cooperation

From examining the 2015 priorities of the G20 and APEC, it can be seen that the two organizations are seeking to advance inclusiveness. This means that an economy should have inclusive growth in which all segments of society enjoy the economic benefits. Moreover, other related issues that are important to the G20 and APEC are SMEs, agriculture, trade, anti-corruption, energy and other economic issues.

Most importantly, several members of the G20 are also members of APEC, such as Australia, Canada, Mainland China, Indonesia, Japan, Korea, Mexico, Russia, and the United States. Therefore, they are in a good position to ensure that the G20 and APEC are working on the same issues. It is suggested that APEC members should actively seek closer cooperation with the G20. The closer cooperation is not only beneficial for the Asia-Pacific region but also for the whole world. The reason is that the G20 and APEC can learn from each other. APEC members that are also members of the G20 should assist with promoting the G20-APEC cooperation in the G20. As a matter of fact, a representative of the G20 has attended the APEC SOM3 meeting. Furthermore, the G20 Leaders Summit will be held on November 15-16, 2015. The APEC Economic Leaders' Meeting will be held on November 18-19, 2015. There is great certainty that the G20 Leaders and the APEC Leaders will discuss similar economic issues and will focus on inclusive growth.

Moreover, APEC's enhancement of cooperation with G20 can also be enlarged to include the participation of OECD. The advancement of the triangular relationship would strengthen the work on various economic issues. Presently, the OECD has contributed to several G20 issues: 1) Agriculture; 2) Anti-corruption; 3) Development; 4) Employment and social policy; 5) Energy, environment and green growth; 6) Financing for investment; 7) Financial sector reform; 8) Framework for strong, sustainable and balanced growth; 9) Taxation; 10) Trade and investment (OECD 2015).

APEC has also worked closely with the OECD. For example, APEC and the OECD have developed the APEC-OECD Integrated Checklist on Regulatory Reform (APEC 2015). Another example is the cooperation between APEC's Anti-Corruption and Transparency Experts' Working Group

(ACT) and the OECD which has resulted in the holding of the ACT-OECD High-Level Anti-Corruption Workshop on Combating Business Bribery (APEC 2015a).

Thus APEC has cooperated with the OECD and APEC is beginning to seek cooperation with the G20. The optimal outcome is for the strengthening of the triangular relationship among APEC, OECD and G20 as soon as possible. A suggestion is that the APEC Sectoral Ministerial Meetings could include the participation of G20 and OECD. Furthermore, it is also suggested that APEC could join existing OECD-G20 work. APEC projects could encompass the contribution by OECD and G20 in terms of involvement by experts and the holding of workshops.

From Chinese Taipei's standpoint, the participation in APEC has enabled Chinese Taipei to be linked with the international community. Particularly, Chinese Taipei's contributions in APEC through the implementation of projects, such as projects relating to agriculture and SMEs are greatly appreciated by APEC members. APEC can request the OECD and G20's participation in the APEC projects by providing speakers and sharing information. For example, Chinese Taipei is implementing the APEC Food Losses Multi-Year Project that seeks to address food loss and waste. In the statement of the G20 Agriculture Ministers Meeting that was held on May 7-8, 2015 in Istanbul, the G20 Ministers stated that minimizing food loss and waste is important (G20. 2015a). As for the OECD, agricultural issues are advanced through the Trade and Agriculture Directorate.

Therefore, once the G20, OECD and APEC have strengthened their cooperation with each other, the three organizations can focus on developing and implementing joint projects. Chinese Taipei will certainly have an important role to play, as Chinese Taipei has been implementing capacity building projects that assist APEC developing economies. These experiences are also beneficial to the G20 developing economies.

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APEC Growth Strategy and Beyond

Wayne Chen

APEC, as a premier forum to facilitate economic growth, trade and investment in the Asia-Pacific region, has been promoting cooperation on issues beyond its traditional agenda. Through economic and technical cooperation (ECOTECH), APEC is dynamic in narrowing development gap and enhancing capacity building among its member economies across the region. In so doing, APEC has improved economic growth in terms of both quantity to quality, and this feature demonstrates that APEC, a non-binding organization, significant in leading regional integration in the globe.

The APEC Leaders' Growth Strategy announced in 2010, by following which all the 21 member economies achieved consensus on objectives of their pursuit of economic growth, was a milestone for APEC carry on its ECOTECH activities. In 2015, APEC is drafting the second framework to continue the collective endeavor for common prosperity for another 5 years. The essay views the 1st phase APEC Growth Strategy and beyond.

Emergence of Growth Strategy

After 2000, APEC has been extending its Trade and Investment Liberalization and Facilitation (TILF) agenda by incorporating a wide range of capacity building activities as well as issues not directly related to trade.

As shown by the three pillars of APEC's agenda--Trade and Investment Liberalization; Business Facilitation, and; Economic and Technical Cooperation-- announced in 1994, APEC has been focused on capacity building and APEC was achieving growth and prosperity for a common future through narrowing development gap.

In this context, anthropocentric issues, such as health, welfare, inclusiveness, and social safety net, have gradually involved in the agenda. The health working group was establish in response to the increasing risk of epidemic diseases in 2007, and the Emergency Preparedness Working Group was built in 2009 after the hit of tsunami and earthquake in the South Asia, South-East Asia, and Chile.

Climate Change, Energy Security and Forestation, and other ecology related issues were later introduced to APEC. The Sydney APEC Leaders' Declaration on Climate Change, Energy Security, and Clean Development recognized that "economic growth, energy security and climate change are fundamental and interlinked challenges for the APEC region," therefore, Leaders are "committed... to ensuring the energy needs of the economies of the region while addressing the issue of environmental quality and contributing to the reduction of greenhouse gas emissions." 2 goals were revealed in the Declaration: 1) to increase forest cover in the region by at least 20 million hectares by 2020, and; 2) to reduce energy intensity of at least 25% by 2030, with 2005 as the base year.

Given the long history of expanding the APEC agenda, it is not surprising that the APEC Growth Strategy soon served as a comprehensive framework upon which various APEC issues were coordinated and integrated after the Strategy came in place in 2010.

In 2009, APEC was seeking to develop a new growth paradigm for the changed post-crisis landscape considering that "growth as usual" is not realistic anymore. The Growth Strategy drafted in 2010 was comprised of 5 attributes, namely: Balanced Growth, Inclusive Growth, Sustainable Growth, Innovative Growth and Secure Growth.

The Balanced Growth refers to growth across and within economies that will unwind imbalances and raise potential output through macroeconomic policies and structural reforms. The Inclusive Growths emphasizes that economic growth needs to take social inclusiveness into account by promoting equity, human resources, employment and welfare of vulnerable groups. The Sustainable Growth or Green Growth urges the use of natural resources and economic activities to be ecological friendly and its applications are often technology oriented in the APEC context. Innovation is crucial to the development of other growth attributes given that ICT is such powerful tools for transition to knowledge based economy. The Secure Growth accommodates issues of emergency preparedness, health, food security, anti-corruption and anti-terrorism.

Applications of the APEC Growth Strategy

Since 2010, the Growth Strategy has been supervising capacity building activities across the APEC region by shaping annual priority areas. Through the lens of Growth Strategy, member economies could also be categorized by their development progress. For example, developing economies are supportive to social inclusiveness and infrastructure investment which are crucial for narrowing development gap and disparity with the society. Developed economies that are of advantage in R&D are focused more on innovative growth and sustainable growth which lead to cutting-edge technologies, IPR and energy saving devices. The USA and Russia are in particular active in this regard.

In practice, the Growth Strategy has been utilized intensively in evaluating projects and initiatives within APEC, and therefore, the Growth Strategy was implemented from a top-down manner, from the Leaders to the Working Groups. However, on the other hand, the Strategy was not fully used in evaluating the outcome of initiatives or assessing the performance of working groups due to the lack of qualitative goals. In 2015, while APEC member economies reviewed the first Growth Strategy and working collectively on the new one, it was suggested to involve clear goal or quantitative objective as G20 does, but such comment was not much echoed particularly by developing economies.

Looking Forward

The 2nd phase of the Growth Strategy-- APEC Strategy for Strengthening Quality Growth--- was drafted by all member economies during the 3rd Senior Officials' Meeting in Cebu and is being submitted to Leaders for endorsement in November. in the new Strategy, 3 Key Accountability Areas (KAA), namely: Institution Building, Social Cohesion, and Environmental Impact were newly added for examining and prioritizing APEC initiatives and meanwhile the 5 growth attributes remain. It is not clear yet what changes the addition of KAAs is bringing up, APEC Leaders may not elaborate address priority works of the Growth Strategy in detail. Instead, the new Growth Strategy can be linked and interpreted in line with UN ongoing tasks, such as the Millennium Development Goals and the Sustainable Development Goals to highlight its significance accelerating regional integration and development. APEC still needs to further elaborate the Strategy to member economies, APEC fora and subfora. Similarly, the APEC working groups will need to study the comprehensive Strategy and translate it into strategic plans and work plans for implementation.

Detect Signs of Deflation from Cause and Effect

Darson Chiu

The US economy is firmly believed by the market as the one and only that has been on the right track of recovery. However, its Q2 GDP growth y-o-y stood at only 2.3% lower than market expectation. The main reason of why US economic upturn was not as strong as estimated ought to be the appreciating greenback causing the exports to slow down. The economy of Euro zone, not as solid, has been improving as well. The zone's Q2 GDP increased by 1.2%, which was incredibly the highest quarterly y-o-y growth for the past 4 years. The quantitative easing (QE) measure adopted by the European Central Bank (ECB) was just not enough to cope with the rooted debt and structural unemployment issues. After 4-consecutive-quarter decline, the Japanese had the first positive growth in GDP with 0.7% growth rate in Q2. The quantitative and qualitative easing measure (QQE) operated by Bank of Japan (BOJ) has been devaluing Yen and picking up export momentum, but it also imposing heavier burden on import costs. Continuous trade deficits have also slowed down Japan's escalation trajectory. In a quick summary, the advanced world has been performing not strong but fair so far.

The noteworthy part should be the recent downturn of Chinese economy and China's sudden turn on its monetary policy. Cooling Chinese economy weakens world demand, and the fiasco of its equity market makes the world capital market to shiver further. The negative impacts associated with the state of world economy were on Taiwan's external demand as well as its stock market. As the economic conditions are getting worse, we might wonder if the deflation has betided Taiwan.

According to the government's most recently issued statistics, Taiwan's consumer price index (CPI) for July declined by 0.66% on a year-on-year basis. This is a 7-month consecutive fall of CPI. Continuously descending price levels could be a negative sign for business outlook. In addition, all forecasting agencies, international and domestic, have downward revised their forecasts for Taiwan's GDP growth of this year. Has deflation really betided the economy of Taiwan? In theory, deflation is a contraction of economic activities resulting in an incessant decline of prices, and deflation is much related to deteriorating economic conditions such as a liable occurrence of recession and high unemployment. If the deflation has been hitting Taiwan, much stronger doses of policy measures in response ought to be used for treatment in no time.

Both deflation and its opposite, inflation, are a monetary phenomenon. Deflation is in general caused by insufficient supply of money, so it is sensible to examine the origin of deflation by looking into the central bank's monetary aggregate M2 annual growth rates. The M2 growth rate in July this year stood at 6.06%; it was 5.63% in July last year. By comparison, M2 growth rate of each month this year is by and large higher than that of the same month of 2014. Therefore, the money supply was not lacking meaning the cause of deflation should be absent. From the monetary standpoint, the major reason forming deflation has not yet existed.

Furthermore, deflation normally leads to increasing unemployment due to sluggish businesses. Referring to the government statistics again, Taiwan's unemployment rate in July this year stood at 3.82%, which was even lower than the rate sometime before the most recent global financial crisis. The unemployment rate on average from January till July this year was at 3.70% that was not only lower than the same period of last year but also the lowest reading for the past 15 years. From the readings, we can be certain that the recovery of Taiwan's job market has been on the right track. For that reason, the result caused by deflation has not been present, either.

Since neither cause nor effect of deflation has sustained, what on earth has been driving down the price levels? Fingers are pointing at crude price plunge since last year. In terms of West Texas Intermediate (WTI), the oil price per barrel was US$ 106.07 on average in June 2014. However, it was priced at US$ 45.25 approximately in early August 2015 indicating a 57% of price plummet during 13-14 months. Actually the crude oil price per barrel went back up at around US$ 60 during the second quarter of this year. Many believed that the price levels were about to mount at that time; however, only just existing and new causes have dragged down the oil prices again.

The most critical cause making the oil prices to drop is supposed to be the stronger greenback. Janet Yellen, the Fed chair, has already announced in public that an interest-rate hike would certain take place sometime this year. Although the recent weakening RMB could consequently postpone Fed's tightening schedule due to potential perturbing of expanding spread, the overdue timing should still be later this year. As a result, the dollar has been continuously appreciating. All commodities including the crude oil are denominated by the US dollar. A stronger dollar has in due course made the oil prices decline. Besides, the slowdown of China's economy and oversupply of oil from OPEC member countries are also great contributors to the crude price plunge.

Lower prices lower the value of outputs this year as compared to that of last year. Despite the fact that the quantity of outputs did not reduce as significantly so far this year, the declining value make the economic readings look extremely awful. In a nutshell, it is all about the base effect, since the statistics are calculated on a year-on-year basis in general. When can we pass by the twisted base effect? The effect will subside when the crude oil prices start to go up again, at least reach the level of last year on average. That stood at US$ 93.17 of WTI crude oil per barrel. And the oil price of this year is very unlikely to attain such level; therefore, the base effect will continue to haunt Taiwan's economy throughout the entire year.

The consecutive fall of CPI y-o-y is improbable to bring to a halt in the near future, and the fear for deflation is expected to arise with worsening economic readings. Some has suggested raising the prices so as to promote economic activities and cope with the downturn. Frankly, I do not believe such measures are even feasible. When consumers and investors are expecting prices to go down, they tend to halt their consumption and investment at present. Therefore, a price hike suggestion targets at turning around the expectation of cheaper goods and services. Theoretically, it seems sensible. However, we should not forget that prices are driven up or down mainly because of two forces, demand pull and cost push. If the measure is about pulling up demand by increasing income, more economic activities will take place. If it's only about cost push, consumption and investment will not happen. That means a simple price-hike policy would not help pick up growth; income effect with profit sharing would do.

From either the cause or effect perspective, we may conclude that deflation has not yet betided Taiwan. However, a dread of deflation originated from the base effect has caused negative impacts on the current state of Taiwan's economy. The economy has slowed down by far from recession. Expansionary stimulus measures are not needed at this moment; they take two to three quarters to take into effect. By then, the economy might have already passed by the bad times. In addition, price hike policies are not recommended to address the deflationary anxiety. Because policy makers might be thinking about pulling up demand, their policies such as raising water rates and taxi fares can only push up the cost.

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